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Frantic Muni Sell-Off Sends Yields Surging Most on Record.

- **30-year benchmark yields surge 51 basis points to 2.32%**
- **'I don't think anyone knows what's going on,' investor says**

America's state and local government bonds are usually a haven from financial havoc. Not this time.

Waves of panicked selling are racing through the $3.8 trillion market, causing prices of even the safest securities to tumble and driving up 30-year yields by an unprecedented 51 basis points Thursday. The amount of securities being put out for bid by investment managers has surged as they rush to raise cash. And municipal junk bonds — like those backed by airlines or state tobacco settlements — are in the midst of the biggest rout in more than two decades.

"I have never seen cuts like this," said Matt Dalton, chief executive officer of Belle Haven Investments, refering to the swift drop in prices.

The sell-off marks a dramatic about face for the municipal-bond market, where prices rose steadily until last week as the securities acted as a refuge from the stock-market's slide. Yet even as investors flocked into Treasuries Thursday, state and local debt yields surged by the most on record, as those on 30-year securities soared to 2.32% from as little as 1.38% Monday, according to Bloomberg's benchmark indexes.

"It's up one day big, it's down one day big," said Jason Appleson, a portfolio manager for PT Asset Management LLC. "I don't think anyone knows what's going on."

The fear about the steadily spreading coronavirus is raising the risk of another mass exodus from the market, which is dominated by risk-averse individuals who tend to pull back in droves when prices drop. That happened in the wake of the last recession because of misplaced speculation that there would be widespread defaults and again in 2013 on concern about rising interest rates.

The unprecedented risk of a potentially virus-induced recession is making individuals reluctant to invest, and a downturn in consumer spending and travel could hit airports, convention centers and others that have issued municipal bonds. But analysts say this week's selling has been driven more by fear than credit risk.

"Historically when there have been scares like this, it creates panic selling because of the investor base," Appleson said.

The type of securities held by high-yield funds were particularly hard hit. Some backed by Ohio's share of the legal settlement with cigarette companies tumbled to as little as 87 cents on the dollar, a 13% drop from the average price on Wednesday. Puerto Rico sales-tax-backed bonds also fell.

Yet even bonds that have essentially no risk of defaulting, like those backed by the states of California and Maryland, also dropped. The yield on top-rated 10-year bonds is now about 1.65%, more than twice what it is on comparable Treasuries. That's the biggest gap since at least 2001.

“Those are like 2008-type figures,” said Gabriel Diederich, portfolio manager at Wells Fargo Asset Management.

That diverging direction of Treasuries and municipal bonds is threatening to compound the losses for some investment funds, which frequently make side bets against Treasuries to protect against the risk of higher interest rates. Those losses are coming just as investors are pulling out cash, forcing them to sell municipal securities to meet the redemptions.

The amount of bonds out for bids reached $2.5 billion Wednesday, the most since 2016, as investors look to get out of their holdings, according to data compiled by Bloomberg.

“They’re getting hit on both sides,” said Christopher Lanouette, a managing director for CIBC Private Wealth Management, who said he’s getting more defensive in the current market environment. “It’s difficult to have a lot of conviction.”

Bloomberg Markets

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March 12, 2020, 9:24 AM PDT Updated on March 12, 2020, 10:46 AM PDT